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FISCAL IMPACT STATEMENT

LS 7454

BILL NUMBER: HB 1931

NOTE PREPARED: Feb 13, 2003

BILL AMENDED: Feb 13, 2003

SUBJECT: Residential Steel Framing Tax Credit.

FIRST AUTHOR: Rep. Ayres

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill establishes a \$1,000 Adjusted Gross Income (AGI) Tax deduction for the purchaser of a single family or two family residence constructed using steel framing manufactured in the United States of America.

Effective Date: January 1, 2004.

Explanation of State Expenditures: (Revised) The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources. The bill requires a taxpayer claiming the deduction to file with the DOR: (1) proof of the costs attributable to materials for the steel framing; and (2) a list of the persons or corporations who supplied materials for the steel framing.

Explanation of State Revenues: (Revised) The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who purchase certain steel frame homes from a builder. The revenue loss due to this bill could potentially total \$75,000 in FY 2005. This impact could increase by about 5% annually thereafter.

Background: The bill provides for a deduction from Adjusted Gross Income for an individual taxpayer who purchases from a builder either a single-family residence or two-family residence constructed wholly or partially of steel framing manufactured in the U. S. Under the bill, the deduction amount is the lesser of : (1) the part of the purchase price of the home attributable to materials for the steel framing; or (2) \$1,000.

Home construction data from the *Steel Framing Alliance* and the *National Association of Home Builders*, suggests that single-family steel frame homes represent about 5.5% of new single-family home construction nationally. This data also suggests that multi-family steel frame homes represent about 8.4% of new multi-family construction nationally. Based on these shares and 2001 housing starts in Indiana (approximately 32,000 single-family and 1,050 two-family homes), it is estimated that about 1,900 single-family and two-family homes containing steel framing were constructed in Indiana during that year. Adjusting for annual trends in starts for both types of housing in recent years, it is estimated that about 2,208 homes containing steel framing will be constructed in tax year 2004. (Since 1991, average annual growth is about 5.2% for single-family home starts and about 2.4% for two-family home starts.) The tax impact of the deduction on these homes is estimated to total about \$75,000. The fiscal impact assumes a \$1,000 deduction being claimed by 2,208 home buyers in 2004.

Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund. Since the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease Taxable Income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: *Characteristics of New Single-Family Homes (1987-2001)*, *Characteristics of Units Completed in Multifamily Buildings (1985-2001)*, National Association of Home Builders, <http://www.nahb.org>. *New Residential Permits by County, 1 Family Units: 2001*, *New Residential Permits by County, 2 Family Units: 2001*, Stats Indiana, <http://www.stats.indiana.edu>. *Use of Steel by Application*, The Steel Framing Alliance, <http://www.steel framingalliance.com>.

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